CANADIAN INDUSTRIAL GAS & OIL LTD.

file

ANNUAL REPORT

1967

Canadian Industrial Gas & Oil Ltd.

1967 ANNUAL REPORT

Head Office	640 Eighth Avenue S.W., *Calgary, Alberta*

Directors

Herbert C. Andreae	*Toronto, Ontario*
Edmund C. Bovey	*Toronto, Ontario*
C. Spencer Clark	*Seattle, Washington*
Robert B. Craddock	*Montreal, Quebec*
J. Ian Crookston	*Toronto, Ontario*
Edward A. Galvin	*Calgary, Alberta*
Richey B. Love	*Calgary, Alberta*
Arthur Mackwell	*Glen Rock, New Jersey*
Peter N. Thomson	*Montreal, Quebec*
John R. Yarnell	*Montreal, Quebec*

Officers

Edward A. Galvin	*President*
Edmund C. Bovey	*Chairman of the Executive Committee*
Edward G. Battle	*Executive Vice President*
Donald D. Barkwell	*Vice President*
Stewart R. Dyckman	*Vice President*
George T. Hefter	*Vice President*
Wilfrid A. Loucks	*Vice President*
Laurence A. Sills	*Secretary*
A. Kenneth Davies	*Treasurer*
Russell G. Rennie	*Assistant Secretary*

Registrars and Transfer Agents

Common and Preferred Shares:

National Trust Company, Limited,
Calgary, Montreal, Toronto, Vancouver, Winnipeg

The Bank of New York, *New York*

Auditors

Riddell, Stead, Graham & Hutchison, *Calgary, Alberta*

Exchange Listing

Common and Preferred Shares:

Toronto Stock Exchange, *Toronto, Ontario*

Highlights

YEAR ENDED DECEMBER 31

		1967	1966	1965
Revenue		$21,268,000	$19,528,000	$17,358,000
Income — before non-cash charges and special credit		$ 9,444,000	$ 8,259,000	$ 8,081,000
Net income and special credit		$ 6,151,000	$ 5,547,000	$ 5,080,000
Income per Common share — before non-cash charges — (including 8¢ per share special credit in 1966)		$1.69	$1.56	$1.46
Net income per Common share (including special credit)		$1.11	$1.00	$0.92
Production — Net				
Oil — Annual (Barrels)	CIGOL	2,447,000	2,264,700	2,144,000
	Prairie	333,500	344,600	342,060
Daily (Barrels)	CIGOL	6,700	6,200	5,870
	Prairie	910	940	940
Gas — Annual (MCF)	CIGOL	24,809,700	23,487,900	21,432,000
	Prairie	788,800	792,800	915,100
Daily (MCF)	CIGOL	67,970	64,350	58,720
	Prairie	2,160	2,170	2,510
Industrial Gas Sales				
Annual (MCF)		35,695,300	33,423,900	29,563,000
Daily (MCF)		97,800	91,570	80,990
Industrial Gas Purchases (MCF)		18,937,760	15,688,800	12,400,000
Liquefied Gas Sales (Gallons)		37,600,000	35,610,000	24,790,000
Reserves				
Oil — Condensate (Barrels)	CIGOL	41,045,000	38,600,000	29,750,000
	Prairie	2,781,000	3,314,000	3,600,000
Gas — (MCF)	CIGOL	563,000,000	497,000,000	525,500,000
	Prairie	27,000,000	27,800,000	28,700,000
Wells				
Oil — Net	CIGOL	257	244	239
	Prairie	11	11	10
Gas — Net	CIGOL	135	119	114
	Prairie	7	6	6
Acreage				
Gross	CIGOL	6,226,875	6,320,000	4,868,000
	Prairie	2,184,640	2,507,548	2,258,752
Net	CIGOL	2,403,025	2,444,000	1,231,000
	Prairie	399,228	630,010	471,441
Miles of Pipeline System		375	318	318
Propane Distribution Plants		37	37	33

DIRECTORS' REPORT

To The Shareholders:

The Directors of Canadian Industrial Gas & Oil Ltd. present herewith the 1967 Annual Report of the Company including the audited consolidated financial statements for the year ended December 31, 1967. The highlights of the Company's operations are shown on the opposite page.

Financial

In 1967 income at all levels showed an increase over 1966. Income before non-cash charges was $9,444,000, up $1,185,000 or 14%. Net income of $6,151,000 was up $604,000 and equalled $1.11 per share in 1967 compared to $1.00 in 1966.

Cash income provided sufficient funds for all additions to assets during the year except the Camerina properties (described on page 4), which were financed by a bank loan repayable monthly over a period of five years.

Production and Reserves

Crude oil and condensate production for 1967 was 2,780,500 barrels after deduction of all royalties, providing an average daily net production of 7,610 barrels, an increase of 470 barrels from the 1966 average of 7,140 barrels. Working interest oil production averaged 6,190 barrels per day, condensate averaged 390 barrels per day and royalty oil averaged 1,030 barrels per day. Total natural gas production after deduction of all royalties was 25,598,500 MCF, an average of 70,130 MCF per day as compared with 66,520 MCF per day produced in 1966.

Sulphur production from gas processing plants in 1967 was 6,780 long tons compared with 4,620 long tons in 1966. Sales of 5,420 long tons of sulphur during 1967 compared with sales of 7,000 long tons in 1966.

The Company's oil and gas reserves increased during the year. Oil reserves increased to 43,826,000 barrels from 41,914,000 barrels, while gas reserves increased to 590,000,000 MCF from 524,800,000 MCF.

Industrial Gas Operations

Total sales of natural gas to industrial consumers during the fiscal year showed an increase of 6.8% to 35,695,300 MCF from 33,423,900 MCF. The average daily gas sales were 97,800 MCF compared with 91,570 MCF in 1966. The additional sales, principally due to plant enlargement and resultant increase in demand by Chemcell Limited, have necessitated the expansion of the industrial gas facilities. The expansion included additional compression and the construction of a 46-mile 10" and 8" gas transmission line, running south of Edmonton, from the Chemcell plant to the Bittern Lake area. This line was constructed by a wholly-owned subsidiary, CIGOL Bittern Lake Transmission Ltd.

Gas purchased from third parties during 1967 totalled 18,937,760 MCF compared with 15,688,800 MCF in 1966. Gas wells in which the Company owns an interest produced a total of 17,328,510 MCF of industrial gas for the Company and its royalty owners. The Company's net share of this industrial gas was 11,834,450 MCF after the deduction of 5,494,060 MCF for the royalty owners.

Acquisitions

Once again acquisitions played a large role in replacing and increasing the Company's oil and gas reserves.

Oil reserves were purchased for cash in the Pembina, Joarcam and Excelsior fields, while substantial gas reserves were purchased in the Bittern Lake, East Crossfield, Nevis, Westlock and Ghost Pine areas, all in Alberta.

Camerina Petroleum Corporation

A major acquisition was effected on October 1, 1967, when the Company purchased for approximately $6,500,000 all of the Canadian producing properties, non-producing acreage, and other assets of Camerina Petroleum Corporation of Houston, Texas. The properties acquired included oil reserves estimated at 3,570,000 net barrels, net gas reserves estimated at 51,100,000 MCF, and gas liquids reserves estimated at 935,000 net barrels. It is estimated that net daily production in 1968 from the Camerina properties will average 520 barrels of oil and 5,830 MCF of gas. In addition, Camerina had an interest in 54,000 acres (19,000 net acres) most of which are in the Province of Alberta. The important oil properties include interests in the Weyburn field in Saskatchewan and the Inverness, Swan Hills, Joffre and Buffalo Lake fields in Alberta. Substantial interests in gas producing properties are held in the Ghost Pine and Nevis fields in Alberta and the D'Clute field in Ontario. It is estimated that these properties will generate a net revenue of $720,000 in 1968.

Coastal Propane Ltd.

Through its wholly-owned subsidiary, Cigas Products Ltd., the Company purchased 50% of the outstanding shares, and the outstanding debentures, of Coastal Propane Ltd., the remaining interest being retained by the founder of the company, who is continuing as President and General Manager. Coastal Propane Ltd. operates as a retail distributor of L.P. Gas, and associated equipment and appliances, in the North Vancouver area of British Columbia, with annual sales of approximately 750,000 gallons.

Prairie Oil Royalties Company, Ltd.

In April, 1967 the Company renewed its 1966 offer to shareholders of Prairie Oil Royalties Company, Ltd. (except those resident in the U.S.A.) to exchange shares on the basis of one common share of the Company for three shares of Prairie. As a result, the Company increased its interest in Prairie from 72.1% to 77.9%.

Exploration and Land

Exploration and development again featured prominently in the Company's activities, with the acquisition of lands in several new areas and participation in the drilling of 68 wells.

Zama - Hay Lake

In the northwestern Alberta Keg River basin a second excellent oil well was completed at North Zama, offsetting the discovery made in late 1966. Additional seismic evaluation was undertaken, as a result of which an interest was acquired in 8,000 gross acres (2,067 net acres) of petroleum and natural gas rights, and three drillsites defined on the Company's holdings, one at Zama and two at Hay Lake. The well at North Zama is currently drilling, one well at Hay Lake has been abandoned and the second completed as a potential oil well.

Lac La Biche

A 20% interest is held in approximately 255,000 acres in the Lac La Biche - Craigend area in north central Alberta in which a gas well was completed during the year.

Cold Lake

In the Cold Lake area in Alberta, the Company holds Petroleum and Natural Gas Rights in approximately 33,000 acres on which an outside company drilled three test wells during the year in an attempt to define heavy oil reserves sufficiently attractive to justify experimental work on stimulated recovery of the immobile oil reserves. Assessment of the results is now proceeding and indicates that a pilot oil recovery operation may be initiated during 1968.

Bittern Lake

A gas discovery was made during the year and additional lands acquired in this area to augment the Company's holdings. Gas from this area is being transported to the Company's industrial customers by its wholly-owned subsidiary, CIGOL Bittern Lake Transmission Ltd.

Lloydminster

Two productive oil wells were drilled in the Lloydminster area in Alberta as offsets to producing wells owned by the Company.

Kamsack

During the year exploration surveys were carried out in the Kamsack area in Saskatchewan, on large blocks totalling 400,000 acres in which the Company owns a 13⅓% interest, acquired during 1966 and early 1967. Several exploratory tests will be drilled on these lands in the early part of 1968.

Fire Creek

A 20% interest is held in 50,000 acres of Petroleum and Natural Gas Leases in British Columbia, in an area that is considered to be an extension of the Rainbow basin. An outside company carried out a large seismic program on these lands and has commenced drilling a deep exploratory test to earn an interest in a limited amount of acreage. Several other companies have announced plans for drilling in the vicinity of the Company's holdings during the 1968 winter season.

Arctic Islands

The Company is a participant in the large scale exploration program of the Arctic Islands announced by Panarctic Oils Ltd. late in 1967. Panarctic's initial undertaking covers a period of four years and will involve the expenditure of approximately $20,000,000 on lands acquired from various companies and totalling 44,000,000 acres including 822,701 acres owned 100% by the Company and 1,686,630 gross acres (215,123 net acres) owned by the Company's subsidiary, Prairie Oil Royalties Company, Ltd. It is anticipated that 17 exploratory tests will be drilled and one of the first wells may be located on the Prairie Oil interest lands.

North Sea

Through its wholly-owned subsidiaries, Canadian Industrial Gas (U.K.) Limited and Northern and Central Gas (U.K.) Limited, the Company holds interests in four production licences in the British sector of the North Sea totalling approximately 770,000 acres, on which two wells were drilled during 1967 and a third commenced before the year end but since abandoned. Plans have not as yet been finalized for the 1968 program.

Land

At the year end the Company and its subsidiary, Prairie Oil Royalties Company, Ltd., held an interest in 8,411,515 gross acres equal to 2,802,253 net acres and a gross royalty interest in 1,134,847 acres as shown in the following tables:

Acreage Holdings as at December 31, 1967

CANADIAN INDUSTRIAL GAS & OIL LTD.

	Gross Acres	*Net Acres*	*Royalty Acres*
Alberta	1,937,570	672,648	300,397
British Columbia	1,435,798	211,917	—
Saskatchewan and Manitoba	1,184,342	450,805	244,280
Total Western Canada	4,557,710	1,335,370	544,677
Quebec	65,500	32,750	—
Arctic Islands	822,701	822,701	—
Ontario	11,123	11,123	—
Total Canada	5,457,034	2,201,944	544,677
North Sea, U.K.	769,841	201,081	—
Total	6,226,875	2,403,025	544,677

PRAIRIE OIL ROYALTIES COMPANY, LTD. (Owned 77.9% by the Company)

	Gross Acres	*Net Acres*	*Royalty Acres*
Alberta	190,425	75,647	6,039
Saskatchewan	70,945	42,699	566,110
Manitoba	235,412	64,531	—
Total Western Canada	496,782	182,877	572,149
Northwest Territories	—	—	18,021
Arctic Islands	1,686,630	215,123	—
Total Canada	2,183,412	398,000	590,170
North Dakota, U.S.A.	1,228	1,228	—
Total	2,184,640	399,228	590,170
TOTAL ACREAGE OF THE COMPANY AND PRAIRIE OIL ROYALTIES COMPANY, LTD.	8,411,515	2,802,253	1,134,847

Drilling Summary

During 1967 the Company participated in the drilling of 68 wells, the results of which are shown in the following table:

Canadian Industrial Gas & Oil Ltd.

	Oil		*Gas*		*Abandoned*		*Total*		*1966 Total*	
	Gross	*Net*	*Gross*	*Net*	*Gross*	*Net*	*Gross*	*Net*	*Gross*	*Net*
Alberta	8	2.991	13	1.941	18	5.967	39	10.899	33	9.92
British Columbia	4	.321	1	163	6	1.767	11	2.251	33	8.72
Saskatchewan	—	—	—	—	13	3.164	13	3.164	9	4.26
Montana	—	—	—	—	—	—	—	—	1	.15
North Sea	—	—	—	—	2	.800	2	.800	1	.20
	12	3.312	14	2.104	39	11.698	65	17.114	77	23.25

In addition to the above, varying gross royalty interests were held in seven oil wells and five gas wells.

Prairie Oil Royalties Company, Ltd. (Owned 77.9% by the Company)

	Oil		*Gas*		*Abandoned*		*Total*		*1966 Total*	
	Gross	*Net*	*Gross*	*Net*	*Gross*	*Net*	*Gross*	*Net*	*Gross*	*Net*
Alberta	—	—	2	.416	—	—	2	.416	8	3.28
Saskatchewan	—	—	—	—	1	1.000	1	1.000	2	1.50
Manitoba	—	—	—	—	—	—	—	—	7	1.92
	—	—	2	.416	1	1.000	3	1.416	17	6.70

In addition, Prairie held varying gross royalty interests in twenty-four oil wells and one gas well.

	Oil		*Gas*		*Abandoned*		*Total*		*1966 Total*	
	Gross	*Net*	*Gross*	*Net*	*Gross*	*Net*	*Gross*	*Net*	*Gross*	*Net*
Total for the Company and Prairie Oil Royalties Company, Ltd.	12	3.312	16	2.520	40	12.698	68	18.530	94	29.95

Metal Minerals Exploration

Participation in basic mineral exploration was increased during the year. Geophysical surveys were carried out on the Company's exploration licence in Anglesey, North Wales, from which a diamond drilling program was set up for the year 1968. Follow-up work was done to the 1966 program at St. Elias in the Yukon, and surveys were carried out in a large area of British Columbia. An interest in an exploratory licence covering 177,000 acres was acquired in the uranium area of northern Saskatchewan, and an airborne radio-activity survey was commenced. Results of the survey warranted the staking of an additional 400 mineral claims. The Company also participated in a geo-chemical survey in the Lake Abitibi area of Ontario and Quebec.

Liquefied Gas

Modest increases in gallonage sales were experienced during the year by the Company's wholly-owned subsidiary, Cigas Products Ltd. Propane sales were 37.6 million gallons compared with 35.6 million gallons in 1966. Retail sales increased to 22.7 million gallons from 18.8 million gallons, while whole-sale decreased to 14.9 million gallons from 16.8 million gallons. The reduction in sales to wholesale customers was due to a decrease in sales to U.S. distributors.

Availability of product for winter requirements, including high volume peak loads such as natural gas standby, is vitally affected by available transportation equipment and rail time en route to market. Increasing emphasis is being placed upon storage by the L.P.-Gas industry and to minimize handling costs this should be located either adjacent to production or to market. Cigas is participating with Western Propane, Inc., in which it holds a 50% interest, in a refrigerated storage project for propane and butane located in the State of Washington. This could provide a capacity in excess of twenty million gallons, of which approximately ten million gallons is expected to be available in 1968. The Pacific Northwest is an area deficient in winter storage for liquefied petroleum gas, and the availability of locally stored product is expected to enhance market development.

In late 1967, Great Canadian Oil Sands Ltd. announced plans to construct a natural gas pipeline to serve its Athabasca Tar Sands plant, and stated that gas would be available for the requirements of the Town of Fort McMurray. The Town has requested the submission of franchise applications from interested parties. Cigas has made a submission for a franchise to serve the community, and is presently supplying gas to more than 800 customers with metered propane service from an existing grid system and from individually installed propane tanks.

To minimize the effect of heavy winter demands placed on distribution facilities by the space heating market, Cigas is continuing its efforts to develop summer propane and butane loads. Sales and service programs are being used throughout the retail marketing area to improve operating efficiencies.

Increasing costs of propane plus various operating factors in a competitive market resulted in lower operating margins in 1967. New and expanded gas processing plants in Alberta will provide greater availability of product through 1968 and 1969 permitting expansion of markets serviced by Cigas.

Summary

Operating and financial performances of the Company in 1967 were most favourable and forecasts anticipate continued growth for the year 1968.

On Behalf of the Board,

President.

Calgary, Alberta.
March 15, 1968.

RIDDELL, STEAD, GRAHAM & HUTCHISON
CHARTERED ACCOUNTANTS

AUDITORS' REPORT

To the Shareholders

CANADIAN INDUSTRIAL GAS & OIL LTD.

We have examined the consolidated balance sheet of Canadian Industrial Gas & Oil Ltd. and subsidiary companies as at December 31, 1967 and the consolidated statements of income, retained earnings, paid-in surplus and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1967 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta.
January 29, 1968.

RIDDELL, STEAD, GRAHAM & HUTCHISON,
Chartered Accountants.

Assets

	1967	1966
Current Assets		
Cash	$ 496,581	$ 695,409
Short-term deposits	870,000	345,000
Accounts and notes receivable	3,918,985	3,867,150
Due from parent company	—	616,817
Inventories of merchandise and supplies at lower of cost or replacement cost	803,233	808,249
Prepaid expenses and deposits	179,943	125,762
	6,268,742	6,458,387
Investments		
Affiliated companies		
Shares at cost and advances	895,678	809,385
Other companies, at cost		
Debentures	287,375	287,375
Shares (Note 3)	2,322,688	2,511,904
	3,505,741	3,608,664
Property, Plant and Equipment, at cost (Notes 1, 2 and 4)	86,567,480	72,762,545
Accumulated depletion and depreciation	28,863,050	25,273,334
	57,704,430	47,489,211
Other Assets (Note 5)	301,755	318,814
	$67,780,668	$57,875,076

Signed on Behalf of the Board:
E. A. GALVIN, *Director*
E. C. BOVEY, *Director*

The accompanying notes are an integral part of this financial statement.

Consolidated Balance Sheet *as at December 31, 1967*

Liabilities

	1967	1966
Current Liabilities		
Bank loan	$ 400,000	$ 500,000
Accounts and notes payable and accrued charges	3,106,353	3,825,294
Dividend payable	109,856	109,857
Current maturities on long-term debt	2,409,587	949,630
	6,025,796	5,384,781
Long-Term Debt (Note 6)	18,531,132	15,315,020
Deferred Rental Income	453,080	433,183
Minority Interest in Subsidiary Company	1,101,240	1,288,946

Shareholders' Equity

	1967	1966
Capital Stock (Note 7)		
Authorized		
440,712 5½% cumulative redeemable convertible voting preferred shares, par value $10 each		
6,047,430 common shares without par value		
Issued		
399,477 (1966 - 399,480) preferred shares	3,994,770	3,994,800
5,360,843 (1966 - 5,318,160) common shares	17,595,957	17,404,884
	21,590,727	21,399,684
Paid-In Surplus	1,365,399	1,374,489
Retained Earnings (Note 8)	18,713,294	12,678,973
	41,669,420	35,453,146
	$67,780,668	$57,875,076

The accompanying notes are an integral part of this financial statement.

Consolidated Statement of Income
For the year ended December 31, 1967

	1967	*1966*
SALES, SERVICE AND OTHER OPERATING INCOME	$21,267,926	$19,528,409
COSTS AND EXPENSES		
Gas and merchandise purchased	5,251,796	4,782,737
Selling, operating and administrative expenses	5,486,567	5,426,220
Interest on bank loans and other long-term debt	972,163	1,060,359
Depletion	2,045,925	1,631,637
Depreciation	1,586,294	1,439,311
Minority interest	99,106	84,492
	15,441,851	14,424,756
NET INCOME	5,826,075	5,103,653
SPECIAL CREDIT		
Gain on disposal of assets	325,063	443,056
NET INCOME AND SPECIAL CREDIT (Note 9)	$ 6,151,138	$ 5,546,709

The accompanying notes are an integral part of this financial statement.

Consolidated Statement of Paid-in Surplus

For the year ended December 31, 1967

	1967	1966
BALANCE AT BEGINNING OF YEAR	$ 1,374,489	$ 1,495,585
Less		
Equity in paid-in surplus at January 1 of subsidiary resulting from additional share acquisitions, less adjustments (Note 1)	9,090	—
Share issue expense	—	121,096
BALANCE AT END OF YEAR	$ 1,365,399	$ 1,374,489

Consolidated Statement of Retained Earnings

For the year ended December 31, 1967

	1967	1966
BALANCE AT BEGINNING OF YEAR	$12,678,973	$ 7,983,946
Add		
Equity in retained earnings at January 1 of subsidiary resulting from additional share acquisitions (Note 1)	102,895	—
Net income for the year and special credit	6,151,138	5,546,709
	18,933,006	13,530,655
Less		
Dividends		
Preferred shares	219,712	236,013
Common shares	—	615,669
	219,712	851,682
BALANCE AT END OF YEAR	$18,713,294	$12,678,973

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Source and Application of Funds

For the year ended December 31, 1967

	1967	1966
FUNDS DERIVED FROM		
Operations		
Net income and special credit	$ 6,151,138	$ 5,546,709
Non-cash items	3,293,033	2,712,384
	9,444,171	8,259,093
Sale of assets	1,159,291	1,938,517
Issuance of common shares	90,000	108,500
Long-term debt, net	3,216,112	—
Increase in deferred income	19,897	72,771
	13,929,471	10,378,881
FUNDS APPLIED TO		
Property, plant and equipment, net	14,345,532	7,731,557
Reduction of long-term debt, net	—	1,517,491
Dividends	219,712	851,682
Investment in affiliated and other companies	194,887	654,333
Increase in other assets	—	318,814
Expenses in connection with share issue	—	121,096
	14,760,131	11,194,973
DECREASE IN WORKING CAPITAL	$ 830,660	$ 816,092

Notes to Financial Statements
as at December 31, 1967

Note 1—PRINCIPLES OF CONSOLIDATION

The consolidated financial statements for the year ended December 31, 1967 include the accounts of Canadian Industrial Gas & Oil Ltd. and all of its subsidiaries. All subsidiaries, with the exception of Prairie Oil Royalties Company, Ltd., are wholly-owned. The excess of the cost of shares of purchased subsidiaries over the underlying net book value of their assets at dates of acquisition has been included in property, plant and equipment and is being systematically amortized on the same basis as the assets to which it relates.

During 1967 additional shares of Prairie Oil Royalties Company, Ltd. were acquired resulting in a 78% ownership in that subsidiary's common shares at December 31, 1967 (72% as at December 31, 1966). These acquisitions are accounted for on a pooling of interests basis, and therefore further adjustments were made during the year to the consolidated paid-in surplus and retained earnings as at January 1, 1967. The 1966 figures shown herein for comparative purposes have not been restated to reflect the income attributable to the additional shares purchased.

Note 2—ACCOUNTING POLICIES

The companies follow the practice of capitalizing both productive and non-productive costs related to the exploration for and the development of oil and gas reserves, and of depleting such costs on a composite unit of production method based on total estimated reserves.

Depreciation of pipelines, plant and equipment is being provided at rates which will amortize original costs over the estimated useful lives of the respective assets.

Note 3—SHARES IN OTHER COMPANIES

Investment in shares of other companies at December 31, 1967 includes 333,522 shares of British Columbia Oil Lands Ltd. (approximately 35% of that company's outstanding capital stock) at a cost of $2,009,117 with an approximate market value of $2,000,000. Because of the number of shares of British Columbia Oil Lands Ltd. involved, the market value is not necessarily indicative of the amount that could be realized if that investment were sold.

Note 4—PROPERTY, PLANT AND EQUIPMENT

	1967	*1966*
Oil and gas properties	$58,195,833	$47,774,724
Oil and gas production equipment	9,423,510	8,166,607
Pipelines and processing plants	10,062,961	8,308,651
Propane marketing equipment	8,885,176	8,512,563
	86,567,480	72,762,545
Less		
Accumulated depletion	16,483,270	14,301,295
Accumulated depreciation	12,379,780	10,972,039
	28,863,050	25,273,334
	$57,704,430	$47,489,211

Note 5—OTHER ASSETS

Included in other assets at December 31, 1967 are amounts due from officers of $90,961 and unamortized finance expense of $210,425.

Note 6—LONG-TERM DEBT

	1967	*1966*
5⅞% First Mortgage Sinking Fund Bonds, due February 1, 1983, subject to semi-annual sinking fund payments of $325,000 (U.S.) commencing August 1, 1968 — $11,000,000 (U.S.)	$11,845,021	$11,845,021
6¾% (1966 — 6%) bank loan, repayable in monthly installments of $66,000 secured by certain producing properties	2,683,000	3,750,000
Purchase agreement, interest free, repayable in annual installments to 1970	226,600	350,000
6% notes repayable $26,100 quarterly	236,098	319,629
Amount payable on properties acquired during the year (financed in January, 1968 by a long-term bank loan repayable in monthly installments of $100,000)	5,950,000	—
	20,940,719	16,264,650
Current maturities included in current liabilities	2,409,587	949,630
	$18,531,132	$15,315,020

Long-term debt maturities and sinking fund requirements for each of the four years subsequent to 1968 are as follows: 1969 — $2.8 million, 1970 — $2.8 million, 1971 — $2.2 million, 1972 — $1.9 million.

Note 7—CAPITAL STOCK

Changes in the share capital accounts during the year were as follows:

	Preferred Shares		*Common Shares*	
	Number of Shares	*Consideration*	*Number of Shares*	*Consideration*
Balance, January 1, 1967	399,480	$ 3,994,800	5,318,160	$17,404,884
Issued for cash on exercise of options	—	—	9,000	90,000
Issued on conversion of preferred shares into common shares	(3)	(30)	2	30
Issued in exchange for additional shares of subsidiary—Prairie Oil Royalties Company, Ltd. (Note 1)	—	—	33,681	101,043
Balance, December 31, 1967	399,477	$ 3,994,770	5,360,843	$17,595,957

At December 31, 1967 options were outstanding to officers and other employees to purchase 219,500 common shares at $10 per share exercisable from time to time to October 26, 1973.

Preferred shares are convertible into common shares until July 1, 1973 at the rate of four common shares for five preferred shares, after which date the preferred shares are redeemable at par. When preferred shares are converted, the authorized number of common shares increases and the authorized number of preferred shares decreases in the same ratio in which preferred shares are converted into common shares.

Note 8—DIVIDEND RESTRICTIONS

The terms of the Deed of Trust and Mortgage securing the company's First Mortgage Sinking Fund Bonds restrict the amount of retained earnings available for dividends as at December 31, 1967 to approximately $11,800,000.

Note 9—INCOME TAXES

Under Canadian income tax law, drilling, exploration and property acquisition costs, which are capitalized in the accounts, are deductible from income in the year incurred or, if expenditures exceed income for the year, the excess may be carried forward to subsequent years. As a result, income taxes for the year ended December 31, 1967 have been eliminated and an excess ($6,200,000 — subject to final assessment by taxation authorities) of such expenditures remains to be carried forward and applied against future taxable income. In addition the companies claim depreciation for income tax purposes in excess of the amounts recorded in the accounts. At December 31, 1967 the net book value of depreciable assets exceeds the amount upon which depreciation will be allowed for income tax purposes in the future by $3,700,000.

The companies provide for income taxes only as they become payable. On the deferred tax basis, income tax provisions would have been $2,150,000 and $1,800,000 for 1967 and 1966 respectively.

Note 10—REMUNERATION OF DIRECTORS AND OFFICERS

Included in selling, operating and administrative expenses in the 1967 consolidated statement of income is remuneration of directors and officers of $199,996.

Canadian Industrial Gas & Oil Ltd.
1967 Annual Report

PRINTED IN CANADA

Canadian Industrial Gas & Oil Ltd.

And Its Subsidiaries

CONSOLIDATED STATEMENT OF INCOME

Six Months Ended June 30, 1967 and 1966

(Unaudited)

	1967	*1966*
Sales, service and other operating income	$10,426,349	$ 9,476,741
Deduct:		
Gas and merchandise purchased	2,695,507	2,137,518
Selling, operating and administrative expenses	2,626,750	2,681,134
Interest on bank loans and other long term debt	485,757	518,347
	5,808,014	5,336,999
Income before the following	4,618,335	4,139,742
Deduct:		
Provision for depletion	931,371	857,740
Provision for depreciation	787,436	723,371
Minority interest in income of subsidiary	53,841	46,513
	1,772,648	1,627,624
Net income	2,845,687	2,512,118
Special items		
—gain on disposal of investments	231,387	—
—gain on disposal of fixed assets	93,676	—
Net income and special items	$ 3,170,750	$ 2,512,118
Cash income per common share before special items*	$ .83	$ .75
Net income per common share (including 5¾c per share from special items in 1967)*	$ .57	$ .45

**Based on the number of outstanding common shares at June 30, 1967 for both periods.*

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Six Months Ended June 30, 1967 and 1966

(Unaudited)

	1967	*1966*
SOURCE OF FUNDS		
Income from operations before depletion, depreciation and minority interest in subsidiary	$ 4,618,335	$ 4,139,742
Sale of investments in other companies — net	465,797	
Partial redemption of debenture of another company		1,000,000
Sale of properties, plant and equipment	572,972	
Issue of common shares for cash	5,000	8,500
	$ 5,662,104	$ 5,148,242
APPLICATION OF FUNDS		
Additional investment in subsidiary company	$ 41,269	
Reduction of long term debt	959,407	1,279,324
Dividends on — preferred shares	109,857	126,160
— common shares		615,669
Reduction (increase) in deferred income	33,584	(26,027)
Additions to — oil and gas properties and equipment	2,718,396	1,415,507
— propane marketing equipment	419,693	616,302
	$ 4,282,206	$ 4,026,935
Increase in working capital during the period	$ 1,379,898	$ 1,121,307

PRINTED IN CANADA

AR29

CANADIAN INDUSTRIAL GAS & OIL LTD.

INTERIM REPORT

AUGUST 30, 1967

To the Shareholders:

We present the unaudited consolidated statements of income and source and application of funds for the six months ended June 30th, 1967, with comparative figures for the same period of 1966. For more significant comparison the 1966 figures have been revised to include those of Prairie Oil Royalties Company, Ltd., in which a controlling interest was acquired during 1966, and on this basis the gross revenue increased $949,608 or 10% from the corresponding period in 1966. Income before deduction of non-cash charges and addition of non-recurring profit increased by $479,000 to $4,618,000; whereas net income increased to $3,171,000 from $2,512,000.

Based on the number of shares outstanding as of June 30th, 1967, and including in each period the Company's present share of the income from Prairie Oil Royalties Company, Ltd., net income per share for the first six months was 57¢ in 1967 compared to 45¢ in 1966. Excluding the non-recurring profit during the first half of this year, it is anticipated that the net income for the second half of the year will be greater due to general increases in revenue. Royalties on oil production from the Athabasca tar sands will add to revenues when the extraction plant goes on stream in the fourth quarter of the year.

Exploration

During 1967 new exploration projects have been undertaken involving land acquisition, basic exploration and the drilling of exploratory test wells.

In the general Rainbow-Zama area of northwestern Alberta the Company participated in several seismic surveys. Two Petroleum and Natural Gas Leases and a Drilling Reservation were acquired in the North Zama area totalling 7,360 gross acres (4,180 net acres). In North Zama three wells were drilled, of which one was completed as a Keg River oil well, one as a Muskeg oil well and the third was abandoned. The Company's acreage position is very prospective in this area and additional drilling and geophysical work will commence at freeze-up.

The Company holds a 20% working interest in approximately 50,000 acres of Petroleum and Natural Gas Leases in British Columbia, adjacent to the Alberta-British Columbia border, and located southwest of the Rainbow area. An arrangement has been made on this acreage with another company which will conduct an extensive seismic programme to evaluate the acreage and may earn a limited amount of acreage by the drilling of several test wells.

Arctic Islands

Land holdings totalling 822,701 acres in the Arctic Islands are under option to Panarctic Oils, which company is seeking to raise sufficient funds to undertake a large scale exploration programme involving an extensive area in the Arctic sedimentary basin. Prairie Oil Royalties Company, Ltd., in which the Company owns a substantial position, has an interest in 1,686,630 gross acres which are also under option to Panarctic Oils. A portion of Prairie's holdings is considered to be in one of the most favourable Arctic areas.

North Sea

During the early part of this year Burmah Oil exercised its option to participate in Production Licence P.053 owned 100% by Northern and Central Gas (U.K.) Limited, a wholly-owned subsidiary of the Company. An exploratory test, which was drilled on the licence as a follow-up to the indicated oil discovery drilled last year on Licence P.005, resulted in a dry hole. Further drilling and exploratory activity on the lands in which the Company has an interest will commence in late 1967 or early 1968.

A well now being completed as a Permian gas well, drilled by Placid Oil (G.B.) Limited, is located three and four miles from two blocks in which the Company through its subsidiaries, Northern and Central Gas (U.K.) Limited and Canadian Industrial Gas (U.K.) Limited, now holds a 10% working interest which may be increased to 20% by the end of the year. Preliminary reports indicate the Placid well to be a good commercial discovery. A second well is planned by Placid in the same general area immediately following completion of the first well.

Mineral Exploration

The Company is increasing its participation in basic mineral exploration. Active areas now include Anglesey, North Wales, where an induced polarization survey has just been completed on the Company's 1,060 acre exploration licence, and St. Elias in the Yukon where follow-up work is being carried out on claims staked as a result of a regional survey conducted in 1966. A basic geochemical survey is currently under way in northern British Columbia and an airborne radioactivity survey is being flown on a recently acquired 177,000 acre exploratory permit in the Lake Athabasca area of northern Saskatchewan.

Industrial Gas System

Considerable effort has been directed in 1967 toward expanding the industrial gas facilities and gas reserves. Gas reserves available to the system have been increased by purchase, Company drilling and the execution of gas purchase contracts with other producers. As a result, a 46-mile 10" and 8" gas transmission line, running south of Edmonton from the Chemcell Plant to the Bittern Lake area, is presently under construction. This line is being built by a recently formed wholly-owned subsidiary, CIGOL Bittern Lake Transmission Ltd., and will give the Company a new gas supply area to meet present and future sales requirements.

Respectfully submitted,
On Behalf of the Board of Directors,

President.

Calgary, Alberta.
August 30, 1967.

Grizzly Petroleum (U.K.) Ltd., holds a 100% interest in approximately 230,000 acres in four blocks at different locations — two of which are in the vicinity of recent gas discoveries.

An extensive seismic programme has been carried out and, by an arrangement with a major licence holder in the North Sea, the Company is anticipating participation in the immediate future in the drilling of an exploratory test well which would evaluate a portion of its current holdings as well as earn it an interest in an additional large production licence which is spread over several prospective areas in the North Sea.

Rainbow Area

In the Rainbow area of Alberta the Company is pursuing an aggressive exploration programme, primarily in the form of seismic shooting, with the objective of delineating prospective lands that may be purchased from the Crown or acquired by farm-in. To date the Company has been successful in purchasing a 33⅓% interest in a drilling reservation located in the Hay Lakes area for a price of $75.00 per lease acre. These lands are directly offset by lands purchased recently by another company for $1,287.00 per acre.

On the British Columbia side of the border on the Rainbow trend the Company owns a 20% working interest in approximately 52,000 acres which has been the scene of an important land play in the past few months. Seven drilling reservations have been bought by other companies in this area at prices ranging up to $1,000,000. It is anticipated that the Company will participate in further exploratory activity in this area during the forthcoming winter season.

Minerals Exploration

The Company has recently completed negotiations whereby it has entered into an exploratory programme in search for minerals in Anglesey, North Wales. Copper is the metal of prime importance although some possibilities exist for finding lead and zinc. A diamond drilling programme is under way.

In the Yukon, in the vicinity of the Alaska Highway, the Company is currently participating with two other companies in a regional geochemical survey in an attempt to define areas of interest for mineral exploration. Claims have been acquired in three separate areas of interest.

Abasand Oils Limited - Share Exchange Offer

The Company now owns 97½% of the outstanding shares of Abasand Oils Limited as a result of the January 31, 1966 one for four share exchange offer, which expired June 30, 1966. A notice to all other shareholders of Abasand was mailed on July 29, 1966 advising them that the Company wants to acquire their shares on the same one for four basis and it is expected that the balance of the outstanding shares of Abasand will be acquired immediately.

Acquisition and Control of Canadian Industrial Gas & Oil Ltd. by Northern and Central Gas Company Limited

As a result of the share exchange offer made May 20, 1966 by Northern and Central Gas Company Limited to all the common shareholders of the Company, except those resident in the United States, on the basis of one share of Northern and Central for one share of the Company, Northern and Central now owns 84% of the total outstanding common shares of the Company. This offer expires September 15, 1966. The management of Northern and Central has indicated that with their control they anticipate an increase in the Company's exploration and acquisition activities.

Respectfully submitted,
On Behalf of the Board of Directors,

President.

Calgary, Alberta.
August 31, 1966.

Printed in Canada

CANADIAN INDUSTRIAL GAS & OIL LTD.

INTERIM REPORT

AUGUST 31, 1966

To the Shareholders:

We present the unaudited consolidated statement of income for the six months ended June 30, 1966 with comparative figures for the same period of 1965. While gross income increased $1,270,000, or 16%, compared to 1965, net income was up only slightly. Income shown for the same period in 1965, however, included $229,000 of income actually attributable to a preceding period. Adjusting for this non-recurring income both cash and net income from regular operations were up about 10%.

The smaller income per share in the first half of 1966 compared to 1965 reflects the additional shares of the Company issued in the exchanges mentioned below for shares of Abasand Oils Limited and Prairie Oil Royalties Company, Ltd. None of the operations or income of Prairie Oil Royalties Company, Ltd. for this period has been included in the consolidated statement. Income from Abasand Oils Limited will begin with the first production from the oil extraction plant on the Athabasca tar sands, which is expected late next year.

Prairie Oil Royalties Company, Ltd. - Share Exchange Offer

By offer dated June 1, 1966 to all shareholders of Prairie Oil Royalties Company, Ltd., except those resident in the United States, the Company offered to exchange its common shares for the common shares of Prairie on the basis of one common share of the Company for each three common shares of Prairie. This offer expired August 5, 1966. As a result of the response to it and a few exchanges of shares on the same basis negotiated privately prior to the public offer, the Company now owns 71% of the outstanding shares of Prairie.

Prairie has an average daily net production of approximately 950 barrels of oil and 3,000 MCF of gas. Approximately 80% of the net oil production is derived from royalty interests located in Saskatchewan and most of the net gas production is from the Acadia Gas Field in Alberta. As of June 30, 1965, this company owned various interests in leases, minerals and permit lands totalling 1,884,000 gross acres equivalent to 363,000 net acres. In addition, it owned royalty interests varying from 1¼% to 12½% in 527,000 acres.

Prairie owns approximately 35% of the total outstanding shares of British Columbia Oil Lands Ltd., the major holdings of which are located in the gas areas of northeastern British Columbia. British Columbia Oil Lands Ltd. also owns interests in eight completed oil wells located in the Mitsue oil field of Alberta.

North Sea

Four major Permian gas discoveries have been made in the North Sea during the past year indicating the tremendous potential that exists for future oil and gas discoveries in this area. The Company, through its wholly-owned subsidiaries, Canadian Industrial Gas (U.K.) Ltd. and

Canadian Industrial Gas & Oil Ltd.

And Its Subsidiaries

CONSOLIDATED STATEMENT OF INCOME

Six Months Ended June 30, 1966 and 1965

(Unaudited)

	1966	*1965*
Sales, service and other operating income	$ 8,987,621	$ 7,717,156
Deduct:		
Gas and merchandise purchased	$ 2,191,517	$ 1,462,351
Selling, operating and administrative expenses	2,454,446	2,139,384
Interest on bank loans and long term debt	513,816	418,548
	$ 5,159,779	$ 4,020,283
Income before non-cash charges	$ 3,827,842	$ 3,696,873
Deduct:		
Provision for depletion	$ 769,594	$ 671,059
Provision for depreciation	704,408	676,878
	$ 1,474,002	$ 1,347,937
Net income	$ 2,353,840	$ 2,348,936
Dividends accrued on preferred shares	$ 126,160	$ 126,160
Income per common share before non-cash charges*	79¢	81¢
Net income per common share*	48¢	51¢

**Based on average number outstanding during the periods.*